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SUBJECT: Federal Government Promotes Canada as a Low Tax Country
Open for Investment

¶1. Summary: Federal Finance Minister Jim Flaherty made no new announcements in a November 5 Toronto speech, instead apparently previewing Conservative economic themes for the next campaign by focusing mostly on Canada's strong economy and Conservative tax-cutting, including the next promised one cent cut in the Goods and Services Tax (GST). Flaherty said that Canada's role at the G20 talks later this month will give him the opportunity to "brand Canada as a low-tax country open for investment." End Summary.

¶2. In a warmly-received November 5 luncheon speech to the Greater Toronto Marketing Association (GTMA), federal Finance Minister Jim Flaherty listed the Conservative Government's economic accomplishments to a sympathetic audience in a likely preview of speeches to come in the next election campaign. He emphasized Canada's strong economy and the current government's effort to "leave a legacy of tax cutting," saying "I never met a tax cut I didn't like." Flaherty added that in 21 months in office, the Conservatives have put in place tax cuts that cumulatively will amount to C\$190 billion and will bring back the lowest tax levels in Canada since the days of Prime Ministers Diefenbaker and Pearson (1957-68). Canada is on the best fiscal footing of any G7 country, with surpluses, falling debt, and a soundly financed public pension system, Flaherty said.

¶3. Flaherty first highlighted the government's promise to reduce the business tax from 22% to 15% by 2012, and then offered a defense of the GST cut, which the opposition and some economists have criticized as encouraging consumption rather than investment. Cutting the GST will benefit the one third of Canadians who do not pay income tax, he said three times, and the 2 cent GST cut will mean an additional C\$940 million for the people of the City of Toronto. The economists are welcome to continue paying it if they wish.

¶4. Flaherty also offered a list of the funding transfers the Conservatives have made to Toronto and Ontario to fund projects and programs including infrastructure, water, public transit, the harbor, cultural institutions, labor training, universal child care, and others. He emphasized the Conservatives' shift to per capita transfers, which he said the Government agrees with Ontario Premier McGuinty are a fairer system, and which Flaherty said would result in C\$12.8 billion being transferred to Ontarians.

¶5. Flaherty also responded to a few questions on topics of interest to the United States:

-- Canada should reduce inter-provincial trade barriers, which are higher than trade barriers among EU countries;

-- Moving to a national securities regulator is the way to go, but will take time. The current system means Canadians are not able to access some financial products, and a system of 13 regulators in one country is an embarrassment.

-- The income trust decision was a "very difficult decision," but was necessary to ensure a "level playing field," and to ensure that business decisions are made on a sound basis, and not just for tax

reasons.

-- Canada will need to find a way to limit carbon emissions, and a cap and trade system which relies on market mechanisms is a likely option to be considered.

-- The Conservatives were able to negotiate a signed tax agreement with the United States within 20 months after entering office, after the previous government had promised for 10 years to do it, but never did so.

NAY